Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 AID-05 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NEA-10 NSAE-00
USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01
AGRE-00 OMB-01 SS-15 INT-05 ITC-01 STR-04 /112 R

DRAFTED BY EB/OT/TA:TGWESTON:JVM
APPROVED BY EB/OT/TA:DJDUNFORD
EUR/RPE:ECASEY
------------------124005 310557Z /12
R 310018Z AUG 77
FM SECSTATE WASHDC
TO AMEMBASSY PARIS
INFO AMEMBASSY BRUSSELS
AMEMBASSY TOKYO
USMISSION GENEVA

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USOECD, USMTN, USEEC

E.O. 11652:N/A

TAGS: ETRD, OECD

SUBJECT:OECD AD HOC STEEL GROUP

1. THE FOLLOWING SHOULD BE SUBMITTED TO THE SECRETARIAT:

2. UNITED STATES' COMMENTS ON THE OECD SECRETARIAT'S
STUDY ON THE WORLD STEEL SITUATION

THE OECD SECRETARIAT'S FACTUAL STUDY AND ANALYSIS
OF THE SITUATION IN THE IRON AND STEEL INDUSTRY PROVIDED
A VALUABLE FOUNDATION FOR THE DISCUSSION AT THE JULY
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MEETING OF THE AD HOC WORKING GROUP AND FOR THE FUTURE
WORK PROGRAM AGREED UPON AT THAT MEETING. THE UNITED
STATES BELIEVES THAT THIS REPORT MAKES A SIGNIFICANT
CONTRIBUTION TOWARD ACHIEVING COMMON UNDERSTANDING OF
THE PROBLEMS CONFRONTING THE STEEL INDUSTRY IN MEMBER
COUNTRIES. COVERING BOTH QUANTITATIVE AND QUALITATIVE
FACTORS, THE STUDY IS VERY INFORMATIVE. THE FOLLOWING
COMMENTS ARE OFFERED WITH APPRECIATION FOR THE
SECRETARIAT'S SIGNIFICANT ACCOMPLISHMENT.

AS THE STUDY POINTS OUT, THERE ARE PROBLEMS WITH RESPECT TO DEFINITIONS OF CAPACITY, (FOOTNOTE TO PARAGRAPH 7). CURRENTLY, THE AMERICAN IRON AND STEEL INSTITUTE MEASURES CAPACITY IN TERMS OF QTE MAXIMUM SUSTAINABLE CAPACITY. UNQTE. IT IS GENERALLY AGREED THAT IT IS POSSIBLE FOR THE UNITED STATES TO PRODUCE CRUDE STEEL AT 100 PERCENT OF MAXIMUM SUSTAINABLE CAPACITY AS NOW REPORTED. (IN THE UNITED STATES, A LESS CLOSELY DEFINED CAPACITY FIGURE WAS USED PRIOR TO 1965.) HOWEVER, THE EXPERIENCE OF THE 1950'S INDICATED THAT IT HAD BEEN POSSIBLE FOR THE INDUSTRY TO PRODUCE AT OVER 100 PERCENT OF THE THEN-DESIGNED CAPACITY. IN 1973 AND 1974 WHEN WORLD STEEL DEMAND WAS OF THE MAGNITUDE THAT REQUIRED FULL OPERATION OF ALL AVAILABLE CAPACITY, THE EEC PERCENTAGE RATE OF CAPACITY UTILIZATION NEVER EXCEEDED THE MID-80'S AND JAPAN'S WAS GENERALLY IN THE LOW 90'S. THIS WOULD INDICATE REPORTED CAPACITY IN THESE AREAS MAY BE UNREALISTICALLY HIGH COMPARED TO U.S. DATA.

THUS, A COMPARISON OF OPERATING RATES COMPUTED ON THE BASIS OF DIFFERENT DEFINITIONS OF 100 PERCENT CAPACITY CAN FAIL TO GIVE A TRUE REFLECTION OF THE RELATIVE IMPACT
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OF A DECLINE IN STEEL DEMAND AMONG THE NATIONS CONSIDERED. THE FIGURES PRESENTED IN THE SECTION OF THE ANNEX WHICH TREATS RATES OF CAPACITY UTILIZATION OVERSTATE THE U.S. STEEL INDUSTRY'S ADVANTAGE IN CAPACITY UTILIZATION DURING 1975 AND 1976.

THE STUDY EXPLAINS THAT THE STEEL INDUSTRY IS LIMITED IN ITS ABILITY TO ADJUST RAPIDLY TO CHANGING DEMAND LEVELS, (PARAGRAPH 11) AND POINTS OUT THAT THE HIGH FIXED COSTS IN THE INDUSTRY HAVE PUT STEELMAKERS UNDER CONSIDERABLE PRESSURE TO MAINTAIN THE HIGHEST POSSIBLE RATE OF CAPACITY UTILIZATION (PARAGRAPH 12). WHILE PARAGRAPH 12 DOES NOTE THAT PRICING IS USED AS A MEANS TO ACHIEVE THIS, REFERENCES TO SPECIFIC PRACTICES UTILIZED BY INDIVIDUAL COUNTRIES ARE NOT MADE.

THE STUDY NOTES THAT LOW RATES OF CAPACITY UTILIZATION ADVERSELY AFFECT THE STEEL INDUSTRY'S EARNINGS AND THUS ITS ABILITY TO INVEST IN NEW PRODUCTION FACILITIES (PARAGRAPH 17). THE SECTION ON INVESTMENT IN THE ANNEX STATES THAT THE PURSUIT OF NECESSARY INVESTMENTS HAS BEEN INCREASINGLY ACCOMPANIED BY GOVERNMENT INTERVENTION. THE SPECIFIC NATURE OF THESE ACTIONS IS NOT DISCUSSED. HOWEVER, THE UNITED STATES NOTES THAT THE WORK PROGRAM WILL INCLUDE AN EXAMINATION OF GOVERNMENT POLICIES AND BUSINESS PRACTICES WHICH AFFECT INVESTMENT COSTS AND

EXPANSION EFFORTS.

THE REPORT STATES THAT PENETRATION INTO MARKETS WHICH WERE NOT TRADITIONAL OUTLETS HAS BEEN OCCURRING ON A RAPIDLY GROWING SCALE AND CALLS FOR FURTHER EXAMINATION OF THIS PROBLEM IN A MULTILATERAL FORUM. WHILE THE CAPITAL INTENSIVE NATURE OF THE STEEL INDUSTRY WHICH GIVES RISE TO THIS PROBLEM IS NOTED IN THE STUDY (PARAGRAPHS 11 AND 12), IT WOULD BE USEFUL IN THE FUTURE TO FOCUS ON THE EXTENT TO WHICH THIS CHARACTERISTIC

IS RELATED TO THE TRADE PROBLEM, AND WHETHER TRADE DISTORTIONS ARE A FACTOR.

THE REPORT APTLY POINTS OUT THAT CHANGE IN COMPARATIVE ADVANTAGE IS AN IMPORTANT LONG-TERM FACTOR IN THE STEEL INDUSTRY AND THAT THERE IS A NEED FOR FURTHER ANALYSIS IN ORDER TO UNDERSTAND ITS EFFECTS (PARAGRAPH 22). WE CONCUR THAT THIS IS A SUBJECT WHICH SHOULD BE ANALYZED.

WHILE THE SECRETARIAT'S STUDY OFFERS A VALUABLE PER-SPECTIVE OF THE PROBLEMS CONFRONTING THE STEEL INDUSTRY IN THE MEMBER COUNTRIES, THE FOCUS IS UPON AGGREGATE DATA. IT IS THE UNITED STATES' UNDERSTANDING THAT IN FUTURE WORK THE MAJOR FACTORS COVERED IN THIS STUDY WILL BE ANALYZED ON A PRODUCT SPECIFIC AND MARKET SPECIFIC BASIS, WHERE THE SITUATION VARIES FROM THE GENERAL PATTERN.

THE SECRETARIAT'S STUDY DEFINES STEEL IN TERMS OF ECSC TREATY PRODUCTS. THIS CLASSIFICATION EXCLUDES PIPE AND TUBING, WIRE AND WIRE PRODUCTS. SINCE THESE PRODUCTS ARE ALWAYS CONSIDERED AS STEEL MILL PRODUCTS IN THE UNITED STATES AND ARE GENERALLY CONSIDERED AS STEEL MILL PRODUCTS IN WORLD TRADE, USE OF THIS CLASSIFICATION COMPLICATES COMPARISONS WITH U.S. DATA. PIPE AND TUBING AND WIRE AND WIRE PRODUCTS HAVE REPRESENTED 11.9 PERCENT, 13.0 PERCENT AND 9.7 PERCENT OF NET SHIPMENTS OF THE U.S. STEEL INDUSTRY IN THE YEARS 1974, 1975 AND 1976. THESE ARE ALSO IMPORTANT PRODUCTS IN ANY CONSIDERATION OF THE IMPACT OF IMPORTS ON THE U.S. MARKET. FOR EXAMPLE, THESE TWO BROAD PRODUCT CLASSIFICATIONS REPRESENTED 19.7 PERCENT OF TOTAL STEEL MILL PRODUCT IMPORTS INTO THE UNITED STATES IN 1976. THE U.S. NOTES THAT IT HAS BEEN AGREED TO INCLUDE THESE PRODUCTS TO THE EXTENT

POSSIBLE IN FUTURE ANALYSES IN ORDER TO AVOID DISTORTIONS

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

OF COMPARISONS ON INTERNATIONAL TRADE, DUTY RATES,
CAPITAL SPENDING, EMPLOYMENT, VOLUME AND PRICES.

IN PARAGRAPH 13, THE SECOND PORTION OF THE TABLE DEALING WITH THE NET FOREIGN TRADE BALANCE COULD BE MISLEADING INASMUCH AS THE DATA APPARENTLY EXCLUDE PIPE AND TUBING AND WIRE AND WIRE PRODUCTS. IN TERMS OF METRIC TONS THE NET U.S. TRADE BALANCE IN THESE YEARS, REPRESENTING WHAT THE U.S. CALLS QTE STEEL MILL PRODUCTS UNQTE WAS UNFAVORABLE AS FOLLOWS:

1965	7.2 MILLION TONS
1970	5.9 MILLION TONS
1973	10.9 MILLION TONS
1974	9.3 MILLION TONS
1975	8.3 MILLION TONS
1976	10.6 MILLION TONS

BELOW IS A TABLE SHOWING IMPORTS INTO THE UNITED STATES FROM A NUMBER OF COUNTRIES SIMILAR TO THE ONE SHOWN FOR THE EEC. (ANNEX, PARAGRAPH 33). THIS TABLE INCLUDES ALL STEEL MILL PRODUCTS, AND IS STATED IN METRIC TONS FOR COMPARABILITY.

IMPORTS INTO USA FROM A NUMBER OF COUNTRIES
STEEL MILL PRODUCTS
000 METRIC TONS

	1974	1975	1976
SPAIN	74 (100)	143 (193)	212 (285)
JAPAN	5587 (100)	5300 (95)	7242 (130)
EAST EUROPEAN	-	-	-
SOUTH AFRICA	19 (100)	10 (52)	19 (100)
BRAZIL	59 (100)	39 (66)	61 (103)

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SOUTH KOREA	783 (100)	360 (46)	717 (92)

IT IS WORTH NOTING THE OECD INDICATES 1975 U.S. IMPORTS FROM JAPAN WERE 4.042 MILLION METRIC TONS. AGAIN, THIS PRESUMABLY EXCLUDES PIPE AND TUBING, WIRE AND WIRE PRODUCTS. U.S. IMPORT STATISTICS SHOW 1975 JAPANESE IMPORTS AS 5.3 MILLION TONS. THIS IS ILLUSTRATIVE OF THE IMPACT THAT EXCLUDING THESE TWO IMPORTANT PRODUCT LINES CAN HAVE ON INTERNATIONAL TRADE DATA. THE STUDY INDICATES THAT U.S. IMPORTS OF STEEL WERE 8.5 MILLION TONS IN 1970 (ANNEX, PARAGRAPH 37). ACTUALLY, THEY WERE 11.5 MILLION TONS. THE FIGURE GIVEN FOR 1971 IS 14 MILLION TONS. BY OUR DEFINITION THEY WERE 16.6 MILLION TONS.

THE REFERENCE TO COMPARATIVE TARIFF RATES (ANNEX, PARAGRAPH 27) IS SOMEWHAT MISLEADING IN THAT IT LEAVES THE IMPRESSION THAT UNITED STATES TARIFF RATES MIGHT BE HIGHER THAN OUR MAJOR INTERNATIONAL COMPETITORS. IT SHOULD BE NOTED THAT UNITED STATES RATES ARE ON AN FOB BASIS WHILE ALL OTHERS ARE ON A CIF BASIS. IT SHOULD ALSO BE NOTED THAT THE RANGE OF 6 TO 13 PERCENT APPARENTLY EXCLUDES ANY CONSIDERATION OF SPECIFIC TARIFF DUTIES. BASED ON 1973 VOLUMES, 35.1 PERCENT OF THE CARBON AND ALLOY AND 13.4 PERCENT OF THE STAINLESS AND TOOL STEEL IMPORTS INTO THE UNITED STATES INCURRED A TARIFF CHARGE OF UNDER 5 PERCENT. MANY OF THESE PRODUCTS HAVE SPECIFIC DUTY RATES AND THE AD VALOREM EQUIVALENT RATES MUST BE CALCULATED. INCLUDED IN THIS CATEGORY ARE PIPE AND TUBING, WIRE AND WIRE PRODUCTS, WHICH ARE NOT INCLUDED IN THE OECD SECRETARIAT ANALYSIS. HOWEVER, IN ADDITION TO THESE PRODUCT CATEGORIES, SUCH IMPORTANT IMPORT PRODUCTS AS STRUCTURAL SHAPES,

WIRE RODS, SHEET PILING, RAILS, JOINT BARS AND TIE PLATES AND BAR SHAPES ENTER THE USA AT RATES UNDER 5 PERCENT ON AN AD VALOREM CALCULATION. ALSO, THE HIGH RATE OF 13 PERCENT APPLIES ONLY TO PIPE FOR BEARING APPLICATIONS OR BOILER TUBING, A SOPHISTICATED, TECHNICALLY ORIENTED PRODUCT. GENERALLY THE 10 TO 13 PERCENT DUTY RATES APPLY TO THESE TYPES OF SPECIALTY PRODUCTS WHICH ARE NOT MAJOR VOLUME IMPORTS.

THE SECTION ON DEMAND IN THE ANNEX ACCURATELY POINTS OUT THAT INVENTORY ADJUSTMENT CONTRIBUTES TO THE CYCLICAL PROBLEMS IN THE STEEL INDUSTRY AND ALSO POINTS OUT THAT THE STEEL INTENSITY RATIO HAS BEEN DECLINING. THAT IS, THE RATIO OF THE INDEX OF STEEL PRODUCTION TO THE INDEX OF INDUSTRIAL PRODUCTION HAS BEEN DECLINING DURING THE 1960-1976 PERIOD. OTHER MATERIALS HAVE BEEN INCREASINGLY SUBSTITUTED FOR STEEL. FUTURE STUDIES SHOULD DISCUSS THE IMPORTANT IMPLICATIONS WHICH THIS HAS FOR THE RATE OF GROWTH OF STEEL DEMAND.

THE DATA GIVEN FOR THE UNITED STATES ON ORDERS AND BACKLOGS (ANNEX, PARAGRAPH 19) SHOULD BE DEFLATED TO BE MEANINGFUL. WHEN THIS IS DONE BY USING THE WHOLESALE PRICE INDEX FOR IRON AND STEEL PRODUCTS (1970 EQUALS 100), THE DATA SHOWN IN TABLE II(B) SHOW UP AS FOLLOWS:

YEAR	ORDERS	UNFILLED ORDERS
1970	24.9	3.7
1971	23.8	3.0

1972	26.7	4.5
1973	33.7	8.4
1974	31.5	8.8
1975	20.5	5.3
1976	24.4	5.3

THE STATEMENT IS MADE THAT 1976 NEW ORDERS WERE DOWN SOME 7 PERCENT FROM THE RECORD OF 1974. AS THESE DEFLATED DATA SHOW, THE RECORD WAS ACHIEVED IN 1973 AND THE DECLINE FROM 1973 TO 1976 IS 28 PERCENT. IF 1974 IS THE BASE, THE DECLINE IS 23 PERCENT. THIS IS MORE INDICATIVE OF ACTUAL EXPERIENCE THAN REFERENCE TO THE DOLLAR DATA.

THE STUDY MAKES A FEW ALLUSIONS TO THE ROLE OF DEVELOPING COUNTRIES IN THE EVOLVING WORLD SUPPLY/DEMAND SITUATION. HOWEVER, THIS ASPECT OF THE SITUATION REQUIRES MORE DETAILED EXAMINATION BECAUSE OF THE GROWING ROLE OF THESE COUNTRIES IN THE WORLD STEEL SITUATION.

THE SECTION ON PRICES IN THE ANNEX IMPLIES THAT COUNTRIES OTHER THAN THE EC GROUP ENJOY SOME SEMBLANCE OF PRICE STABILITY WHILE THE EC HAS EXPERIENCED UNSTABLE PRICES. (PARAGRAPH 46-47) THE STUDY REFERS TO QTE ALIGNMENT UNQTE PRACTICES, BUT THE EFFECTS OF THE EC'S ALIGNMENT PRACTICES, MANDATORY PRICES ON REINFORCING RODS AND SUGGESTED MINIMUM PRICES FOR OTHER PRODUCTS ARE NOT DISCUSSED.

THE STUDY POINTS OUT THAT COMMUNITY PRODUCERS OFTEN DO NOT REALIZE THEIR OFFICIAL LIST PRICES. (ANNEX, PARAGRAPH 46) IT SHOULD BE RECOGNIZED THAT THIS IS ALSO TRUE IN THE UNITED STATES ALTHOUGH PERHAPS NOT TO THE EXTENT THAT IT MIGHT BE IN THE EEC. SEVERAL STUDIES HAVE INDICATED THAT IN CERTAIN PERIODS, DISCOUNTING OF STEEL PRICES IN THE U.S. LEADS TO A NET REVENUE PER TON BELOW LISTED PRICES.

THE EMPLOYMENT SITUATION ALSO WARRANTS FURTHER STUDY. (ANNEX) FUTURE REPORTS MIGHT DISCUSS THE FACT THAT

IN SOME COUNTRIES LABOR IS A RELATIVELY FIXED COST WHILE IN OTHERS IT IS MORE VARIABLE AND UNEMPLOYMENT RESULTS FROM DECLINES IN DEMAND. THE STUDY ALSO OMITS DATA ON UNEMPLOYMENT AND DOES NOT POINT OUT THE EXTENT TO WHICH IT IS CAUSED BY INCREASED PRODUCTIVITY.

THE STUDY HAS GIVEN AN EXCELLENT START TO THE CONSULTATIONS BECAUSE OF ITS COMPREHENSIVENESS AND QUALITY WHILE POINTING OUT THE NEED FOR MORE DETAILED ANALYSIS. IT IS OUR HOPE THAT THE CONSTRUCTIVE NATURE OF THE SECRETARIAT'S WORK WILL BE CARRIED OVER INTO THE ENTIRE PROGRESS OF THE CONSULTATIONS BY ALL PARTICIPATING MEMBERS.

AUGUST 26, 1977. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, POLICIES, STEELS, COMMITTEE MEETINGS, BRIEFING MATERIALS,
Control Number: n/a
Copy: SINGLE
Sent Date: 31-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE207909
Document Source: ADS
Document Unique ID: 00
Drafter: EB/OT/TA:TGWESTON:JVM
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Expiration:
Film Number: D770314-0752
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197708117/baaaetqu.tel
Line Count: 338
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: a0ea5751-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1446520
Secure: OPEN
Status: NATIVE
Subject: OECD AD HOC STEEL GROUP
TAGS: ETRD, US, OECD
To: PARIS INFO BRUSSELS MULTIPLE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/a0ea5751-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
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US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009